COMTECH
GROUP INTERNATIONAL LIMITED

1976
ANNUAL REPORT

Directors

Michel Bourbonnais
Robert P. Curl
J. Heath Halliday
James E. Houston
Edward K. Loyst
Donald M. McPhail
John D. Morand
Noreen M. Stevens
Sinclair M. Stevens

Officers

Sinclair Stevens, *Chairman*
James Houston, *Vice Chairman*
Donald McPhail, *President*
Heath Halliday, *Vice President, Ontario*
Karl Brdlik, *Vice President, Quebec*
John Morand, *Treasurer*
Noreen Stevens, *Secretary*

Head Office

Comtech Group International Limited
40 Wynford Dr.
Suite 300
Don Mills, Ont. M3C 1J6
Area Code 416-449-5755

DATA CENTRE LOCATIONS

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9310 St. Laurent Blvd.
Montreal, Quebec H2N 1N4
Area Code 514-382-3330

TORONTO
Suite 450
5 Fairview Mall Drive
Willowdale, Ont. M2J 2Z1
Area Code 416-492-1480

CAMBRIDGE
1000 Bishop St.
Cambridge (G), Ont. N1R 5W6
Area Code 519-653-7331

SALES and SERVICE LOCATIONS

QUEBEC
2184 First Ave.
Limoilou
Quebec, P.Q. G1L 3M8
Area Code 418-524-8478

WINNIPEG
Suite 204
720 Broadway
Winnipeg, Canada
R3G 0X1
Area Code 204-775-2449

RESTON, VIRGINIA, U.S.A.
P.O. Box 784 22124
Area Code 703-471-7141

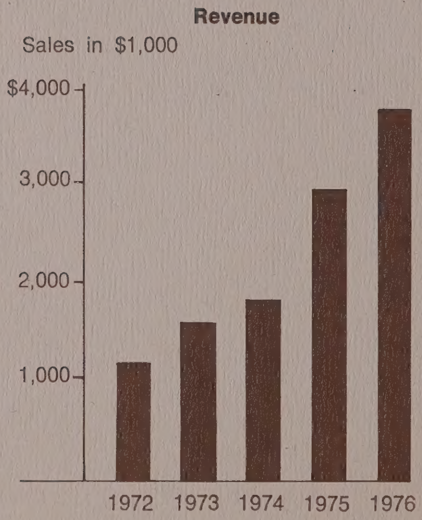
NEW JERSEY
321 Commercial Avenue
Palisades Park 07650
Area Code 201-224-0206

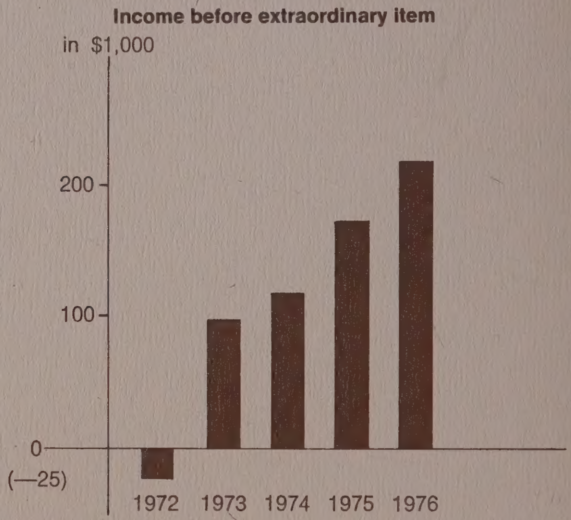
Annual General Meeting

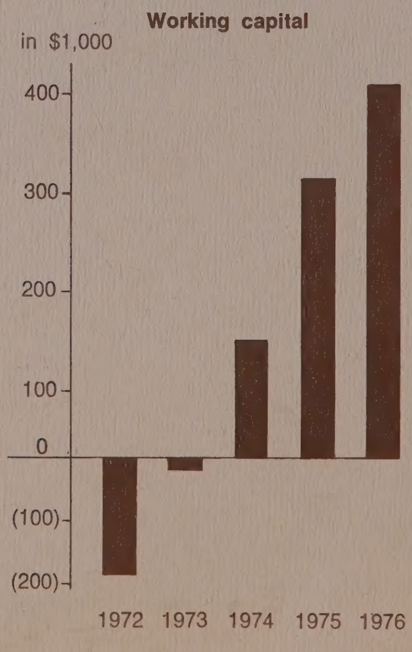
The 1976 Annual and General Meeting of Shareholders of Comtech Group International Limited will be held in the Wilket Creek Room of the Inn On The Park at 3:00 p.m. on October 21, 1976.

COMTECH

	1976	1975	1974	1973	1972
Revenue	3,726,085	2,913,715	1,798,614	1,509,342	1,240,179
Income before extraordinary item	216,319	171,676	117,297	96,707	(24,924)
Working capital	415,557	326,509	155,033	(4,035)	(196,161)







President's Report

Dear Shareholder:

Our past year has been another year of continued growth with an additional 28% gain recorded in our revenue.

Financial Highlights

1. On payment of the dividends on our preferred stock as authorized by the Board, the company is in a current dividend position with respect to our first and second preference shares.

2. Our revenues increased to $3,726,085 from $2,913,715.

3. Our income before extraordinary items increased by 26% from $171,676 to $216,319.

4. During the year the company continued our development programs investing an additional $276,163 in our computer software. We have extended the range and capability of our financial products.

5. Our working capital further increased to $415,557 while our long-term debt has been reduced to $14,000.

Operational Highlights

1. In the early part of the year, the company opened its first office in Western Canada in Winnipeg. Our complete product range has been well accepted in the Winnipeg market.

2. In the fall of last year we released a new payroll product, Autopay 80. One of the major design criteria in our Autopay product was simplicity of use. This product's introduction has been one of the most successful in the company's history and we look forward to substantial growth in the revenue generated by Autopay 80 in the coming years.

3. In our mid-year the company took a significant step forward in software sales when we concluded our first agency agreement for the sale of our financial products throughout the United Kingdom. In the few months of operation of our agent, they have successfully sold and installed our financial products and we have every indication that our General Ledger and Accounts Payable products will be well received in many areas of the world.

4. During the year the company ordered its first IBM370 computer to provide for our systems development in the largest software market area and to give us a more modern computer facility to allow a higher degree of automation of our data centre systems. During the last half of the year we proceeded with the necessary development for the installation of this system.

5. For the first time the company exhibited its software products in the National Computer Show in New York City. The response to our products, both from users and other corporations seeking agency agreements, was far beyond our expectation.

The past year was a year of continuing achievement for the company. I would like to express my thanks to our total staff who provide the outstanding level of service to all of our clients.

Yours very truly,

1. Package Services Division

While we have been long recognized as Canada's number one payroll processor, the diversification of our product line over recent years is beginning to change our revenue picture. An example is that in the last six months of 1975, some 40% of our new business was made up of financial product sales. The fact that the marketplace accepts our expertise in accounting areas other than payroll is an encouraging note for the future. This change is particularly reflected in the number of multiple sales we have made to new customers. A typical multiple sale customer will ask us to handle payroll, job costing, accounts receivable and general ledger.

In order to meet these changing requirements of our customers, during 1975 we expanded our product development staff. This has greatly increased our development capability, both with respect to new products and enhancements to existing products.

Expansion has also taken place geographically. During the year we opened a branch in Winnipeg which got off to a good start. Because of the proximity of this new branch to the U.S. border, we can also report our first sales to American customers.

Payroll services

PAYMASTER: This continues to be the largest producer of revenue and profit for the company. Aimed at Canada's largest companies — those with complex payroll requirements, many with multiple union arrangements — PAYMASTER is successful because of the number of benefits and deductions it offers, as well as comprehensive department reports and options, plus time saving features such as bank reconciliation.

Typical of complex payrolls was the one we handled for the 1976 Montreal Olympics. Thousands of men worked in many different locations with dozens of different pay scales: Paymaster met this important challenge successfully.

During the year many of our clients, who had to contend with the Anti-Inflation Board guidelines, found features within Paymaster particularly helpful in meeting their reporting requirements.

AUTOPAY 80: Introduced in October of 1975, Autopay 80 — designed to meet the specialized requirements of smaller companies — had the best acceptance of any of the company's new products. Fifty customers had been signed up by year-end. The major reasons for the excellent acceptance of AUTOPAY 80 are the many features which allowed us to penetrate specific market areas — the automotive, garment and hotel industries, for example. We have every reason to expect continued growth for this product.

JOB COSTING: This package dovetails with the payroll systems to give an in-depth analysis of just where the labour/material dollar is going; the package can be used in conjunction with payroll or as a stand-alone system.

Job costing data is picked up from two sources — the labour distribution from time cards, for the hours spent on various jobs, and the value of materials used is picked up from material requisition sheets. The system massages this labour/material data to provide a number of breakdowns for effective project control. It's a flexible package that can be put to many uses — and the user determines the report headings he wants and appropriate totalling.

Today's profit squeezes in industry make it even more important for management to maintain a tight rein over costs. That's why one of the most asked for features on our job costing reports is the "variance from budget" column; it allows our customers to know exactly where they stand at all times.

Out job costing customers include contractors, engineering companies, lumber dealers — in fact most industries where timely and accurate cost figures are essential for the smooth running of business.

Financial services

Our Financial Products continue to receive good market acceptance and one reason is that they're designed for both large and small companies — firms with subsidiaries or multiple offices or those with just a single location. During 1975 we added significant additional reporting features to both our Accounts Payable system and our General Ledger system. Because these two systems are closely related, this led to a number of multiple sales.

CASHMASTER: The measure of a good accounts payable system is its ability to control all supplier invoices, take advantage of vendor discounts and issue cheques only when they're

due (based on standard vendor terms). Secondly, these expenses should be distributed to the appropriate accounts at the correct periods.

CASHMASTER does all this and more. An automatic check which prevents the payment of duplicate invoices . . . cash requirements reporting, to aid customers with their cash flow planning . . . and a trial balance which gives an accurate and up-to-date picture of outstanding items, as well as all activities during the period, to assist in handling vendor inquiries and reconciling their accounts.

FINANCIALMAN: Similarly, a good general ledger system should pick up the journal entries from the accounts payable system, produce source journals, provide a comprehensive audit trial, post and print the updated general ledger, and produce a trial balance.

But it's beyond this point of fundamental bookkeeping that FINANCIALMAN really pays off, by means of considerable refinements to meet specialized financial reporting and budgeting needs. Regardless of industry, clients receive meaningful financial statements through the ability to assign their own report headings, account groupings, line descriptions, etc., to tailor the reports to their needs. It's the built-in flexibility possible with this type of reporting that appeals to clients, because the reports provide timely information for the management of their businesses.

CREDITMASTER: A standard accounts receivable system will pick up invoices, payments, and adjustments and use this information to control outstanding receivables, and produce customer statements.

But at Comtech we believe that an accounts receivable system should be more than a processing service because it represents a company's largest reservoir of untapped funds — it should also speed up collections, improve the cash flow, and generally assist with credit administration. That's why we prepare a weekly activity report which spells out for management the up-to-date status of every account, and a monthly aged analysis report for collection purposes (listing contacts and their phone numbers). Then we use this same information to produce various sales summaries . . . by salesmen, by product class, by major customer, for example.

Custom services

Comtech recognizes that its package services will not meet all the needs of clients — and that's why we continue to provide custom services to meet specialized customer requirements. Specialized inventory, production scheduling, materials requirements planning — in fact any system to meet any special situation.

Custom services are fully complementary to our Package Services products, and enable us to provide a wider range of services.

2. Licensing Division

Comtech continues to sell or lease its product software to large users who have their own in-house computers. During the year the Licensing division opened a sales office in the New York area and set up agencies in both London, England and Sydney, Australia — thereby opening up large new marketing areas for our products. Initially, these new agencies will handle our Financial Products. We are also actively negotiating with agencies in other countries.

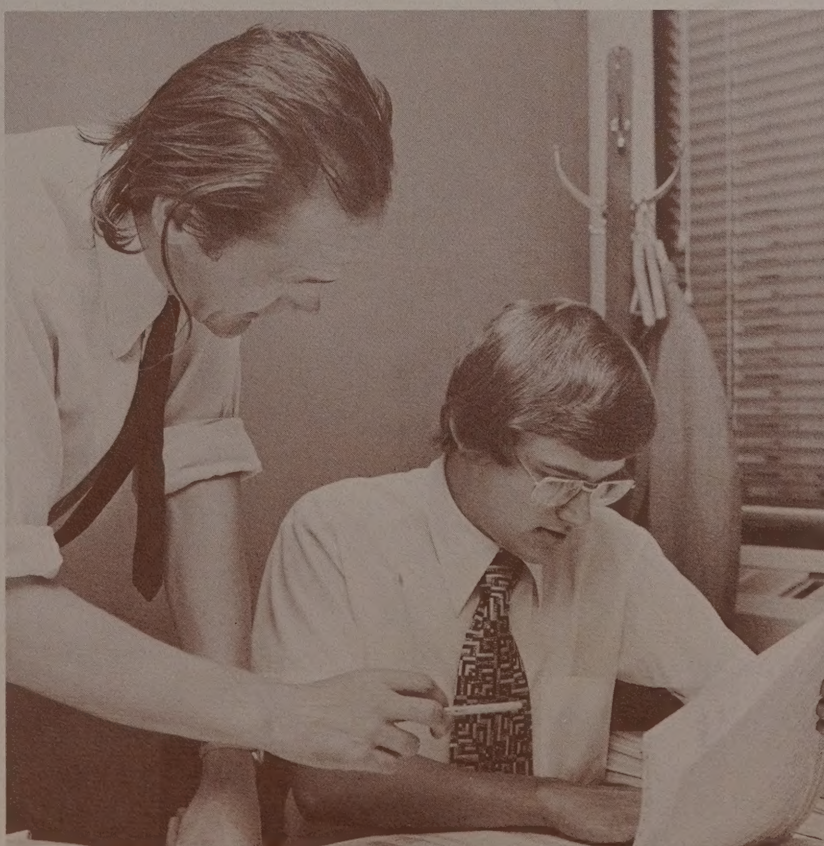
Canadian Paymaster, U.S. Paymaster, Accounts Payable and General Ledger are the four licensed products we offer to date. But others will follow in the near future.

The popularity of these licensed products can be summed up in one sentence: "On cost, on time and it performs".

Licensed products are successful only when systems can be provided that are more cost-effective than developing them in-house. This means that Comtech has to provide better and more efficient solutions, and it does.

An increasing number of companies are recognizing that the computer is a management tool. Why tie up programming staff, and computer time for developing accounting applications, when both can be employed on more profitable computer applications? With Comtech licensed products you don't have to worry about when an application will be completed or what type of quality you'll end up with. They are known quantities — proven, tested and widely used. And they all come with comprehensive documentation and staff training for successful implementation.

As one of our licensed product users says: "Why reinvent the wheel?"



Assets

	1976	1975
Current:		
Cash	$ 103,273	$ 32,017
Accounts receivable	657,082	641,068
Inventories, at cost	72,729	92,212
Prepayments and sundry assets	105,243	52,476
	938,327	**817,773**
Package programmes (Note 1)	483,785	302,234
Fixed Assets (Note 1):		
Cost	1,090,589	1,007,895
Accumulated depreciation	741,305	646,622
	349,284	**361,273**
Other assets and deferred charges	750	17,250
Goodwill and excess of cost of investments in subsidiaries over net assets acquired (Note 1)	818,179	820,794
	818,929	**838,044**
	$2,590,325	**$2,319,324**

On behalf of the Board:

(Director)

(Director)

See accompanying notes.

Consolidated Balance Sheet — June 30, 1976

Liabilities

	1976	1975
Current:		
Bank indebtedness (Note 2)	$ 155,000	$ 125,000
Accounts payable and accrued liabilities	222,621	270,007
Income taxes payable	22,235	1,757
Deferred income taxes	28,414	—
Current maturities on long-term debt (Note 2)	94,500	94,500
	522,770	**491,264**
Long-term debt (Note 2)	14,000	108,500
Deferred income taxes	89,771	—
	626,541	**599,764**

Shareholders' Equity

		1976	1975
Capital Stock (Note 3):			
Authorized:			
14,490	5% First Preference shares, $10 par value, cumulative, redeemable at $10.20 a share		
157,482	3% Second Preference shares, $1 par value, non-cumulative, redeemable at par		
2,000,000	Common shares, $1 par value		
Issued:			
4,490	5% Preference shares	44,900	44,900
55,482	3% Preference shares	55,482	55,482
885,713	Common shares	885,713	885,713
		986,095	**986,095**
Contributed Surplus		101,000	101,000
Retained Earnings		876,689	632,465
		1,963,784	**1,719,560**
		$2,590,325	**$2,319,324**

Consolidated Statement of Income

Year Ended June 30, 1976

	1976	1975
Revenues	**$3,726,085**	**$2,913,715**
Costs and Expenses	3,296,074	2,552,491
Income before taxes and minority interest	**430,011**	**361,224**
Provision for income taxes:		
Current	95,507	182,330
Deferred	118,185	19,065
	213,692	**201,395**
Minority interest in subsidiaries' profit (loss)	—	(11,847)
	213,692	**189,548**
Income before extraordinary item	**216,319**	**171,676**
Extraordinary item:		
Tax reduction due to application of tax losses forward	53,723	184,637
Net Income	**$ 270,042**	**$ 356,313**
Earnings per share:		
Income before extraordinary item	$ .24	$ .19
Net income	.30	.40
Average number of shares outstanding	885,713	885,424

Consolidated Statement of Retained Earnings

Year Ended June 30, 1976

	1976	1975
Retained earnings at beginning of year	$632,465	$287,377
Net Income	**270,042**	**356,313**
	902,507	**643,690**
Dividends paid on 5% Preference shares	25,818	11,225
Retained earnings at end of year	**$876,689**	**$632,465**

See accompanying notes.

Consolidated Statement of Changes in Financial Position

Year Ended June 30, 1976

	1976	1975
Financial resources were provided by:		
Income before extraordinary item	$ 216,319	$ 171,676
Add (deduct) items not requiring a current outlay (receipt) of working capital:		
Depreciation of fixed assets	94,683	112,879
Amortization of deferred charges	94,612	69,628
Provision for non-current deferred taxes and minority interest	106,271	(4,851)
Amortization of excess of cost of investments	5,310	3,200
Working capital provided from operations, exclusive of extraordinary item	**517,195**	**352,532**
Tax reduction due to application of tax losses forward	53,723	184,637
Increase in long-term debt	—	108,500
Issue of common shares for cash	—	500
Miscellaneous	—	1,201
	570,918	**647,370**
Financial resources were used for:		
Acquisition of shares of subsidiary companies plus subsidiaries' working capital deficiencies at dates of acquisition	2,695	108,614
Purchase of fixed assets	82,694	77,327
Purchase of goodwill	—	120,000
Package programme development costs	276,163	158,728
Retirement of long-term debt	94,500	—
Payment of dividends	25,818	11,225
	481,870	**475,894**
Increase in working capital	**89,048**	**171,476**
Working capital at beginning of year	326,509	155,033
Working capital at end of year	**$ 415,557**	**$ 326,509**

See accompanying notes.

Auditors' Report

To the Shareholders of
Comtech Group International Limited

We have examined the consolidated balance sheet of Comtech Group International Limited and its subsidiaries as at June 30, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
September 3, 1976

LAVENTHOL & HORWATH,
Chartered Accountants.

Notes to Consolidated Financial Statements
Year Ended June 30, 1976

1. Accounting policies:

The following is a summary of the major accounting policies of the company:

(i) Principles of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned except for Commercial Computer Services Inc. which is 99.5% owned.

(ii) Fixed assets:

The company depreciates its fixed assets on a straight-line basis over their estimated useful lives. Total depreciation during 1976 was $94,683 ($112,879 in 1975).

Fixed assets are summarized as follows:

	1976			1975
	Cost	Accumulated Depreciation	Net	Net
Computer equipment	$ 731,739	$540,218	$191,521	$234,132
Magnetic tapes	45,733	36,854	8,879	8,700
Furniture and office equipment	159,520	89,805	69,715	72,073
Leasehold improvements ...	153,597	74,428	79,169	46,368
	$1,090,589	**$741,305**	**$349,284**	**$361,273**

(iii) Package Programmes:

It is the company's policy to capitalize the costs of package programme development and to amortize such costs on a straight-line basis over a five-year period, commencing in the six-month period following incurrence of such costs.

The following is a summary of the package programmes:

	1976	1975
Balance at beginning of year	$302,234	$213,134
Package programme development costs capitalized during the year	276,163	158,728
	578,397	**371,862**
Amortization of package programmes	94,612	69,628
Balance at end of year	**$483,785**	**$302,234**

(iv) Goodwill and excess of cost of investments in subsidiaries over net assets acquired:

The excess of cost of investment in subsidiaries over equity in net assets acquired relating to those companies purchased on or before April 1, 1974 is not being amortized since, in the opinion of management, it has continuing value. As required by an accounting recommendation of the Canadian Institute of Chartered Accountants, goodwill and the excess cost of investments in subsidiaries over equity in net assets acquired relating to companies purchased after April 1, 1974 are being amortized; the company is using a straight-line basis for amortization over 40 years. The amount so amortized in 1976 is $5,310 ($3,200 in 1975).

(v) Licensing revenues:

The company has entered into contracts whereby it licenses package programmes to other entities. Revenue from such contractual arrangement take the form of either a monthly usage charge or a lump sum payment. In the latter situation the licensee is granted a perpetual lease right to the particular programme.

Revenues from contracts which generate a monthly usage charge are recorded on a monthly basis. Revenues from perpetual leases are recorded on the dates of effective execution of contracts, provided the lump sum price is due no later than one year after execution. Also, at the date of execution of such contracts, the company accrues an estimate of its costs to be incurred in connection with completion of the installation of the system.

(vi) Income taxes:

The company follows the tax allocation method of accounting. Under this method timing differences between the amount of income reported for tax purposes and the amount of accounting income result in provisions for deferred income taxes.

2. Long-term debt:

Bank loan, evidenced by a registered debenture, bearing interest at 2% above the prime commercial lending rate, repayable $21,875 quarterly	$ 87,500
Balance due on acquisition of subsidiary without interest; repayable $3,500 semi-annually to June 30, 1979	21,000
	108,500
Current maturities........	94,500
	$ 14,000

The above bank loan as well as the bank indebtedness of $155,000 shown as a current liability, are secured by a first fixed charge on the company's computers located in Toronto, and a general assignment of book debts. This computer equipment has been fully depreciated for accounting purposes.

The payments in each of the next five years required to meet aggregate principal retirements of the long-term indebtedness as at June 30, 1976 are as follows:

1977	$ 94,500
1978	7,000
1979	7,000
1980	—
1981	—
	$108,500

3. Capital Stock

Since the company has failed to pay more than four consecutive half-yearly dividends on the 3% non-cumulative second preference shares, these shares carry voting rights.

During the year the company paid all the arrears of dividends on the 5% cumulative first preference shares.

4. Income taxes:

Certain of the "Comtech" companies have losses carried forward for tax purposes, which have not been recognized in the financial statements. These tax losses aggregate $158,334 and expire as follows:

Amount of tax loss	Available to
$134,709	1977
272	1978
4,129	1979
19,224	1980
$158,334	

5. Contingent liabilities:

The company is defendant in a legal action, arising out of its purchase in March, 1975 of the operating assets of the Toronto data centre of Aquila BST (1974) Ltd. Under the acquisition agreement, payments of $60,000 and $30,000 were to be made on September 30, 1975 and March 31, 1976 respectively, providing specified levels of volume were achieved in the business acquired. These payments were not made, as the company calculated that the acquired volume was not reached. Aquila has sued for payment on the basis that the company's calculations are incorrect.

6. Commitments:

The companies are committed to annual realty and equipment rentals of approximately the following amounts:

1977	$520,000
1978	$325,000
1979	$125,000
1980	$ 90,000
1981 — 1986	$ 23,000

Total rent expense in 1976 was approximately $330,000.

7. Statutory information:

The aggregate direct remuneration paid or payable by the companies to the Directors and Senior Officers of the company was $191,462 — eight individuals ($145,696 in 1975 — seven individuals).

Total interest expense for the year was $33,108, of which $15,800 was on debt initially incurred for a period in excess of one year.

8. Anti-Inflation Legislation

The company does not fall within the mandatory restraints of the Federal Anti-Inflation Legislation, except as they apply to the payment of dividends. The Legislation limits the payment of dividends, other than cumulative preference share arrears at October 13, 1975.

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